

CAFTA: The Big Picture

The Free Trade Agreement with Central America and the Dominican Republic is similar to several other recent trade agreements, including those with Morocco, Singapore and Chile, which Congress ratified by wide margins. Yet, CAFTA passage is much more important to vital US national interests:

Strategically, CAFTA is a test of US global credibility. If a divided US Congress turns its back on an initiative as critical as a free trade agreement in our traditional “sphere of influence,” we will be signaling to allies and enemies alike that our sense of purpose is uncertain, and our friendship unreliable.

Politically, CAFTA is a test of our commitment to democracy. If we turn our back on Central America, we undercut the legitimacy of its fragile democracies, and inadvertently strengthen the forces of authoritarian backlash. If we defeat CAFTA, we could rekindle the cycles of polarization that bloodied Central America in the 1970s and 1980s.

Through its emphasis on disciplines in areas like government procurement, services, investment and dispute settlement, CAFTA will reinforce democratic processes and the rule of law. CAFTA’s implementation depends on and advances greater transparency and accountability in governance.

If we reject CAFTA, we terminate the unifying vision of the Free Trade Area of the Americas, the most important and promising initiative in the history of US – Latin American relations.

CAFTA is good for US businesses and workers. Already the United States exports more than \$15 billion annually to the 6 CAFTA countries (including the Dominican Republic). Together, they represent a larger export market than Russia, India and Indonesia combined. Central Americans prefer made-in-the-USA products – spending 50% of their import dollars on US goods. CAFTA promises open and growing markets that support tens of thousands of jobs in the United States. Blue jeans made in Central America contain 90% U.S. content, while jeans made in Asia contain only 2%.

CAFTA is healthy for community relations in the United States. CAFTA is a sign of acceptance to the approximately 3 millions immigrants from DR-CAFTA nations living as good citizens in America. CAFTA signals to Latinos in the United States that we respect their homelands. To embrace CAFTA is to embrace pluralism as a core American value.

CAFTA is vital for Central American economies. Existing preference schemes already allow nearly 80% of the region’s products into the US duty-free. The value-added of CAFTA, therefore, lies in its future predictability for traders and, most importantly, for investors. By giving the region permanent duty-free access to the world’s largest market, CAFTA guarantees investors stable, predictable rules. Only by raising investment rates can Central America bolster labor productivity and break out of poverty.

CAFTA is essential for the region's apparel industries – and for US textile producers. Some 400,000 workers, mostly women, earn living wages in apparel factories in the 6 CAFTA countries, but the end of global textile quotas places these jobs at risk. Duty-free access would give these factories a competitive edge over Asian exporters. Without CAFTA, as many as 200,000 of these apparel workers could soon find themselves in the streets, condemned to return to subsistence farming, prostitution, or to emigrate illegally to America.

Under CAFTA rules of origin, garments enter duty-free only if they use US fabric and yarn. By supporting an integrated textile and apparel supply chain, CAFTA promises to save good jobs for American workers. US fabric and yarn exports to the region exceed \$2.2 billion, over one-quarter of worldwide exports (2003).

CAFTA's labor provisions respond to the need for comprehensive implementation. The International Labor Organization determined that the labor laws in Central America are largely in conformity with fundamental ILO conventions. However, there is often a wide gap between laws on the books and compliance in the workplace. CAFTA requires that countries effectively enforce their labor and environmental provisions. Persistent violations could result in monetary fines, targeted to fix compliance problems. If a country refuses to pay its monetary fines, it would face trade sanctions.

In addition, the Congress appropriated \$20 million in FY2005 for "labor cooperation, capacity building on fundamental labor rights and the elimination of child labor and improvement in labor administration." The DR-CAFTA trade and labor ministries issued a White Paper on April 5th focused on strengthening capacity building and enforcement of labor standards.

Thus, CAFTA provides an opportunity to upgrade labor standards to a degree unmatched by any previous trade agreement (including Jordan), because of the labor provisions in the agreement, the dramatic capacity building package that will accompany it, and because of the ongoing role for the ILO to which the governments are committed. If the United States doesn't implement CAFTA, labor standards will decline as regional economies decline, and we effectively send a signal that we won't reward the governments in the region for their willingness to upgrade labor practices in exchange for trade benefits.

The Environmental Cooperation Agreement linked to CAFTA contains innovative provisions for benchmarks to measure improvements and for outside monitoring of progress. CAFTA's environmental chapter includes a public submissions process, including provisions for an independent secretariat to review public petitions alleging non-enforcement of environmental laws.

Too much is at stake. Delay holds real risks. Congress must pass CAFTA.